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TOWARDS A CONDOMINIUM POLICY IN THE CITY OF BOSTON

One of the most striking features in the current housing market in the country is the rise of condominiums. This is the most successful housing innovation in many years. It is estimated that about 20% of all apartment starts in the nation this past year were condominiums.

Although the development of condominiums has been comparatively slow in starting in Boston and its surrounding area, it now appears that the concept has matured in New England. The potential seems good, and a period of growth and development lies ahead. Realizing this, the question that must be addressed at this time is what should be the posture of the city towards condominium development, and what policies should this posture dictate?

The attached map (chart 1) points to the location of condominiums throughout the City of Boston (and the metropolitan area). As it indicates, there has been a concentration of growth in certain areas of the city in particular Back Bay/Beacon Hill. The potential seems strong though, for this market to expand to other places around the city. A number of factors have lead to the surge of activity in condominiums.

The most significant reasons are often monetary, both for the developer and for the condominium owner. The squeeze between the rising costs of land and construction for new units and the amount of rent which the market will bear has reached the point that in some cases the direct sale of units to individual households will have a greater chance of success and will produce greater return than the construction of rental

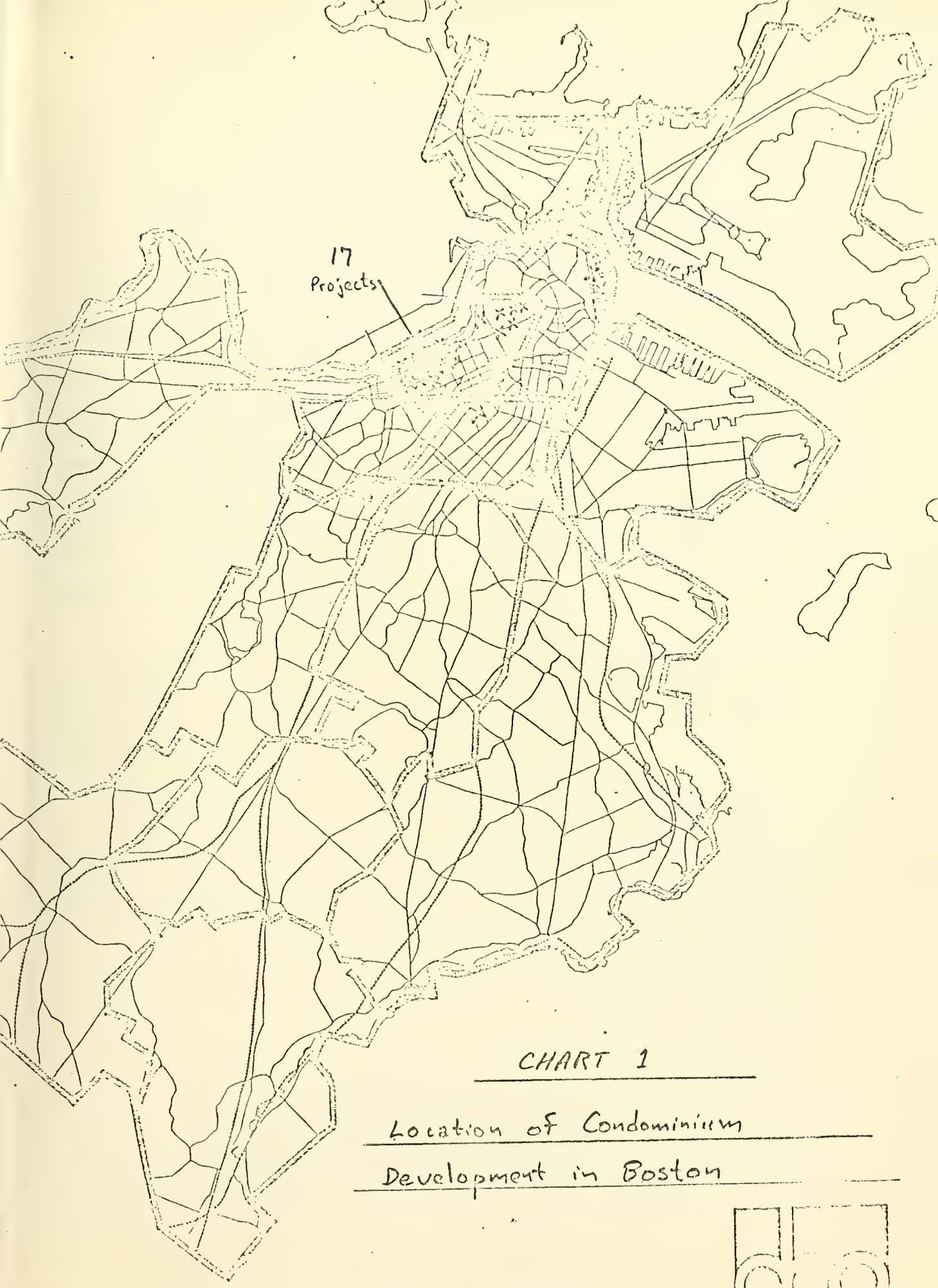

CHART 1

Location of Condominium Development in Boston

DISTRICT PLANNING PROGRAM

AUTHORITY

units. Because of the return on investment, massive sales campaigns have been mounted in a number of areas of the country hailing the "condominium boom;" and indeed, in some areas (e.g. Miami, Florida) a "boom" has really occurred. Advertising and pioneer purchases have educated the public who no longer regard condominium ownership as an unknown and therefore feared social and economic adventure. In Boston and in other cities around the country potential owners (many of whom were formerly renters) are seeking the tax advantages of home ownership,* and look upon the purchase of a residential unit as a wise investment and a hedge against rising rental costs and inflation.

In addition, with the advent of rent control legislation, a number of owners and developers have chosen or will choose to convert rather than to deal with rent control regulations.

Still, all of the condominiums in the City of Boston to date are the result of conversions from other units. There has been no new construction of condominiums in the city. There are probably a variety of reasons which contribute to this. Two of the most prominent, though are the high costs of land in the city and the city's tax policy towards condominiums.

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* However, tax advantages, particularly for single persons or married couples without children, may be somewhat exaggerated. Since such people often have few deductions to itemize, the net difference between taking the standard 10% deduction (as a renter) and filling out the long form 1040 with the deductions of a home owner may not be as big as some condomimium advertisments imply.

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The purpose of this paper will be to outline some of the issues surrounding condominium development and to recommend possible city policies in response to these issues. This is a preliminary paper and will be revised as new data becomes available. Three areas will be covered:

1. The advantages and disadvantages of condominiums to the city.
2. The potential market.
3. The role of the city in condominium development.

THE ADVANTAGES AND DISADVANTAGES OF CONDOMINIUMS TO THE CITY

Conceptually, there are both pros and cons attached to the development of condominiums. In general, the advantages outweigh the costs.

On the positive side, condominium conversions mean an increased tax base for the city. With each condominium sale, the newly acquired unit is reassessed, and the city has consistently received increased revenue by virtue of such transactions.

In addition, in less quantifiable terms, there is the potential that increasing home ownership through condominium growth will bring increasing stability to the housing market in the city. The assumption is that home owners will have a greater interest in the city and in their neighborhood. The result will not only be a psychological attitude change by occupants, but better upkeep and an overall upgrading of the housing inventory. A recent survey of condominium residents in the Boston area seems to confirm this fact. In response to a question as to how likely they were to be moving in the next year or so, 28% of the residents of downtown Boston apartments indicated such a move was very likely, whereas only 4.7% of the residents of condominiums contemplated such a move.

Since young people make up one of the condominium markets in the Boston area, the additional hope is that increasing the opportunity for young people to own apartments in the city will in particular increase the stability and urban committment of that segment of the population.

Finally, it seems that the city will be more inviting if it is able to provide a choice for people regarding whether they rent or own an apartment. A number of residents in existing structures desire to own, and condominium development through conversions and new construction will provide them with this opportunity.

On the negative side, the conversion of apartments to condominiums will mean that some tenants who either can not or do not want to purchase their unit will be forced to leave. Where evicted tenants have adequate resources to find alternative housing, the free market should be allowed to take it course. However, the situation is more difficult for low and moderate income people. Low and moderate income tenants may not be able to purchase their units for a variety of reasons, such as lack of cash for the down payment, inability to meet possible higher monthly payments, and inability to get a mortgage loan because of overly restrictive credit criteria by lending institutions. These people who are forced to leave will obviously not be happy, and some tenants will understandably do their best to prevent eviction by putting up a political fight.

The potential social and economic injustice to evicted tenants, and the resulting political effects, require handling the conversion of condominiums with great care and advance thought.

The Market For Condominiums

A discussion of the market for condominiums in Boston can be divided into two sections: the existing market and its special characteristics, and the potential market in the future.

Market Background

As stated earlier, the Boston condominium market is relatively new. The beginning came with the passage of condominium enabling legislation in 1963 (chapter 493), but the start at that time was slow. Growing acceptance of the concept of ownership has reinforced both the amount of condominium development and the marketing activity in the Boston SMSA. The market has now reached a point where real estate personnel, mortgage lenders, and the lay public are no longer strangers to the condominium concept, and an increasing numbers of households are actively considering the possibility of buying a condominium.

Initially condominium development was inhibited by a variety of factors, including the very cautious view of developers and financial institutions, which was butteressed by the equally cautious view of the buying public. In order to meet this attitude and ensure that the first condominiums in the city would involve a minimum risk to prospective purchasers, developers felt that the first condominiums had to be in the best qualitity multiple unit neighborhood. Initial condominium activity in Boston was therefore limited to a narrow geographic location - the conversion of older, quality rental units in the Back Bay/Beacon Hill area. These units have proven to be extremely marketable because of their unique location and environmental features. (See Chart 1)

Other areas in Boston where condominium conversions have already started and more can be expected include the downtown waterfront and the central and south end areas of the city. These areas are also under heavy market pressures, resulting in a generally high priced market. However, potential development of other areas of the city in price ranges geared to low and moderate income purchasers will probably depend on encouragement from the city and the successful use of a variety of subsidy programs.

The Existing Market

Results of a recent survey of condominium and apartment dwellers who live in the central city portion of Boston shed light on the characteristics of the existing market for condominiums.

The newness of this market is reflected in data which shows that the median time lived in a Boston condominium is about 10 months, while the corresponding time for apartment dwellers is two years. Most of the condominium dwellers were drawn from the rental market (70%). Furthermore, almost 30% of the Boston condominium dwellers were living in their unit as renters before purchasing it as a condominium, reflecting the captured market aspect of converting rental units to condominiums.

In Boston, the condominium population is a comparatively wealthy one. Examination of the household incomes of Boston condominium dwellers and central city area apartment dwellers in Table A shows that over 50 percent of condominium households vs. less than 30 percent of apartment dwellers make over $25,000 per year. The higher incomes of these households are consistent with the fact that condominiums in Boston to date

have been sold mainly at high prices.

The survey shows some other interesting characteristics of the current condominium market in Boston. Table B shows that the demand has come from all age groups, but with a somewhat higher portion of 50-60 year olds. This age group typically represents the "empty nester" group, with grownup children who have left home. The "empty nesters" often are seeking a change to smaller living quarters, and a means of defering capital gains on the sale of their previous single family house. They are also free to choose a location emphasizing adult convenience rather than proximity to a quality neighborhood school. The survey results show a very low percentage of urban comdiminium dwellers with minor children in the household, although the figure is slightly higher than the corresponding figure for apartment dwellers (9 vs. 3 percent households with minor children).

TABLE A

ANNUAL HOUSEHOLD INCOME

Income Bracket	Condominiums		Apartments
	Boston	All	Boston
less than $8,000	0	5.3	9.7
8,000 - 9,999	3.2	1.8	9.0
10,000- 11,999	0.0	5.3	9.0
12,000- 14,999	16.1	12.3	10.4
15,000- 17,999	3.2	5.3	10.4
18,000- 19,999	9.7	10.5	7.6
20,000- 24,999	16.1	17.5	14.6
25,000- 29,999	19.4	12.3	9.7
over $30,000	32.3	29.8	19.4

TABLE B

AGE DISTRIBUTION OF HEAD OF HOUSEHOLDS

Age	Condominiums Boston	Condominiums All	Apartments Boston	City of Boston 1970 Census
19-24	6.3	4.8	9.9	11.5
25-34	21.9	25.8	23.3	18.0
35-44	15.7	17.8	14.8	14.7
45-64	43.9	35.5	30.4	33.3
65-85	12.5	16.1	21.7	22.5

Another condominium market consists of wealthy, elderly retired households, similar in many ways to the "empty nesters," except that their locational desires are based more on convenience to shopping, entertainment and cultural activities, and security, rather than focusing on easy access to employment. The survey showed that the current market in Boston is comprised of only 12 percent of this group, however.

There are several indications of a strong demand on the part of young people. First, despite the high price range of the current condominium market in Boston, the numbers of young households (in the 25-34 year age range) as shown by Table B are not appreciably different than for the apartment dwellers. A related statistic is the high number of single person (over 40%) and two person (over 40%) households, showing that young professionals, both singles and couples are an important sector of the current condominium market.

Secondly the specific experience of some developers has shown that this group provides a definite clientele for condominium ownership. For example, in a development in Brookline (60 Babcock Street), one real

estate firm found that all their one bedroom and efficiency units sold almost immediately to young professionals. Since then that firm has become increasingly interested in the possibility of condominiums marketed solely to this "young" market, many of whom were found to be single. Another related reason for expecting a large demand has been the growth over the course of the last twenty years of this young (25 to 34 year old) population in the city. (Most 18 to 24 year olds are still in school or working at career entry (low paying) jobs with financial commitments associated with education, cars, etc., and are not a significant demander group.)

A question which still remains regarding the possibility for condominium markets for the young is whether there might be a market for young couples with children. It may be possible to sell condiminiums to this market based on the idea of selling not only a home, but a package of conveniences such as day-care centers, opportunities for young people, playgrounds, etc. However, this is a relatively untested market, particularly in the Boston area, and the problem of people's perceptions concerning schools begins to enter in immediately. As one developer put it, he felt that there was a market for young couples with children, but since there was so much of a market in other areas (e.g., elderly and young couples without children), he felt that market ought to be met first before trying to meet one that was really relatively untested.

Potential Market

Indications of a strong potential market for condominiums were also obtained from the recent survey of Boston's central city apartment dwellers. Over 20 percent of these apartment dwellers indicated that it was "likely" that in the next few years they would decide to buy a con-

TABLE C

REASONS GIVEN BY APARTMENT DWELLERS FOR LACK OF INTEREST IN CONDOMINIUMS

(Percent)

Reservations About Condominium Concept		12.3
Concern about:		
resale	3.5	
legal aspects	4.4	
investment	4.4	
Basically Apartment Oriented		17.0
need to move on short notice	7.0	
want to rent, not own	6.1	
never though about it	2.1	
happy in present situation	1.8	
Want Housing Outside the City		17.5
single family house	10.5	
rural area, retirement	7.0	
Not Satisfied With Existing Supply		17.6
too expensive	16.7	
other	.9	
Personal Circumstances		35.6
too old, etc.	26.3	
other misc. reasons	9.3	
	100.0	100.0

dominium.* Furthermore, a strong preference to buy in Boston was expressed by over 60 percent of this group. These results are especially significant in light of the existing Boston condominium market which offers little choice in terms of location, price, or the option of a new unit. (This aspect of a limited market was expressed by even the present owners of Boston condominiums. Over 70 percent said that they were presented with few choices in the market place.)

Still another perspective in the potential for the Boston condominium market was explored by asking those apartment dwellers who had indicated a lack of interest in condominiums why they were not interested. Table C documents the responses in terms of five major catagories. Some of the reasons given, such as "too expensive" concern over "legal problems", and resale problem could potentially be overcome by broadening the market price range downward and improving marketing to remove reservations concerning the basic condominium concept. Based upon the success of these efforts, it seems possible that 15 to 25 percent of those apartment dwellers currently not interested in condominiums could switch their opinion.

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* Some recently run cross tabulations shed further light on the make-up of this "likely" group. For example, its age distribution is such that 34.4 percent are between 25-34 years, only 15.6 percent between 35-44 years, and with a very small 3.1 percent over 65 years old.

When the preceeding survey results are applied to the existing central area housing market situation, a potential demand over the next several years for up to 3000 units can be projected. This is a conserative estimate based simply on three demand components: (1) apartment dwellers indicating a direct interest in condominiums, (2) apartment dwellers who could reasonably be expected to change their opinion, and (3) households who move from outside the city directly to purchase a condominium in Boston (approximately 1/3 of Boston condominium dwellers have done this).

A broader range of supply choice, especially in terms of price is clearly a requisite for tapping this potential demand. A major problem is the difficulty of getting the price of a condominium conversion down below $30,000. This will involve conversion or new construction in areas of less intense developmental pressure and lower capitalized value, areas where current rents are relatively lower. This, in turn, means that a city policy must be worked out regarding those tenants unable or unwilling to buy their unit prior to its conversion to a condominium.

For low or moderate income elderly, it may be possible to use FHA section 235 type of mortgage financing as one step toward making ownership possible for this group. Another possibility would be to make some modifications to the city's current flat rate assessment policy on condominiums. The following sections discuss some possible changes in city policy relating to condominiums which could result in an increase in owner occupied dwelling units and at the same time help low and moderate income households increase their tenancy options.

TABLE D

TAX TREATMENT OF CONDOMINIUMS

lity	Assess/Sales Ratio For Condominiums	1972 Tax Rate Per $1000	Effective Tax Rate On Condominiums	Yearly Taxes On $35,000 Condominium
	.28	$196.70	5.5%	$1,925
e	.60	71.50	4.3	1,505
e	.27-.28	149.00	4.1	1,435
am	.75	52.00	3.9	1,365
y	.70	50.00	3.5	1,225
	.60	49.50	3.0	1,050
n	.17	166.80	2.8	980
ad	.63	43.50	2.7	945

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